

Paul Weiss

Apollo Global Management Expense Review -- Preliminary Results

September 16, 2013

Paul Weiss, Rifkind, Wharton & Garrison LLP

FOIA Confidential Treatment Requested by Apollo Global Management

FOIA CONFIDENTIAL TREATMENT REQUESTED BY APOLLO

APOLLO 00001298

Overview

- On August 29, 2012, Apollo engaged Paul, Weiss to assist in a review of its expense allocations and procedures.
- Paul, Weiss in turn engaged PricewaterhouseCoopers (“PwC”) in October 2012 to assist in providing this advice, including, among other things, T&E spending.
- PwC reviewed all travel and expense reports for 101 Apollo employees with the greatest T&E expenditures between 1/1/2011 through 3/15/2013.
 - PwC analyzed T&E reports comprising more than 80,000 expenditures, totaling approximately \$39 million
- As part of its review, Apollo asked approximately 300 current employees in PE, Credit, Marketing, Finance, and Legal to review the accuracy of their own T&E reports from January 1, 2011 through April 30, 2013, and to note any corrections or adjustments required. These reports comprised 173,217 expenditures totaling \$46,276,493.05.
- The T&E review led us to identify one employee – Mohammed (“Ali”) Rashid whose expenditures warranted more in-depth review.
- As a result, Paul, Weiss engaged BDO Consulting to conduct a forensic analysis of Rashid’s expenses from January 2010 to June 2013.

1. Employee T&E Review

PRELIMINARY RESULTS AS OF SEPTEMBER 12, 2013

- As part of the T&E Review, 173,217 expenditures were reviewed for the time period 1/1/11-3/31/13. Of the 173,217 expenditures reviewed, **6,838** entries, or **3.95%**, were reallocated.
- In dollar terms, the 173,217 expenditures reviewed totaled \$46,276,493.05. Of the \$46,276,493.05 of expenditures reviewed, **\$689,730**, or **1.49%**, were reallocated.
- Apollo is in the process of making accounting adjustments based on the results obtained to date from the T&E review.
- Certain limited reviews are continuing, which we expect to yield some additional adjustments. We will continue to update you on the progress of our work.

1. Employee T&E Review

PRELIMINARY RESULTS AS OF SEPTEMBER 12, 2013

- Preliminary results indicate that on a net basis (excluding adjustments related to Ali Rashid), the following allocation adjustments are required:

Overall T&E Impact to AGM and Fund and Portfolio Companies				
	AGM	Fund	Portfolio Co.	Personal
Expense Type				
Airfare	\$ 450,652	\$(302,986)	\$ (125,888)	\$ 8,549
Hotel and Lodging	133,583	(83,739)	(53,475)	(674)
Meals and Client Entertainment	120,282	(96,427)	(23,960)	(762)
Taxi and Limousine	86,138	(47,554)	(24,924)	(16,390)
Board Meeting expense	(159,150)	177,569	(18,655)	(37)
Other	58,226	(24,406)	(23,410)	(10,201)
Net Profit (Loss) Impact	\$ 689,730	\$(377,544)	\$ (270,312)	\$ (19,514)

- \$689,730 in expenses will be reallocated from AGM;
- \$377,544 in expenses will be reallocated to Funds managed by AGM;
- \$270,312 in expenses will be reallocated to Portfolio Companies;
- \$19,514 in expenses will be reallocated to employees as personal expenses;
- \$22,360 (the difference between AGM net profit and net loss to Funds, Portfolio Companies and personal expenses) remains under review

2. Mohammed (“Ali”) Rashid

BACKGROUND

- Of all of the reviews conducted to date, only one individual’s T&E’s have raised questions of possible misconduct.
- During the review of Rashid’s T&E, Shared Services (a unit within the Apollo accounting department) noticed that Rashid, a partner who has worked at Apollo for 13 years, had submitted expenditures for reimbursement during several holiday weekends in 2012, including July 4th, Labor Day, and Thanksgiving.
- Rashid had been selected for review as one of the 101 employees with the highest T&E expenditures. He was also asked to re-review his expense reports and was given the opportunity to make necessary adjustments. Twice before (in 2010 and 2012) Rashid had been the subject of reviews that led to the repayment of inappropriately taken personal expense charges.
- On at least one and possibly both occasions, Gene Donnelly, Apollo’s then-CFO, spoke to Rashid. According to Rashid, Donnelly told him to resolve the inappropriate expenses with Seth Dunayer, Apollo’s expense manager.

2. Mohammed (“Ali”) Rashid

PRIOR REIMBURSEMENTS

- **2010 Reimbursement:** Rashid’s then-administrative assistant reported to the expense manager that Rashid was expensing monthly charges for an Italian restaurant named “La Contessa” which she believed was actually his barber. (La Contessa was in fact a high-end barber shop).
 - This incident prompted the expense manager to review Rashid’s expenses for approximately the prior six months.
 - Rashid admitted that additional expenses were personal, including personal trips and weekend dinners, and in November 2010 reimbursed the firm \$7,828.86.
- **2012 Reimbursement:** In December 2011, Rashid sought and received permission from the Compliance Department to purchase \$100 holiday gifts for executives of certain portfolio companies.
 - The charges for the gifts appeared on Rashid’s February Amex statement.
 - The timing of the charges prompted further inquiry by the expense manager, which revealed that instead of purchasing gifts for executives, Rashid had spent \$3,500 on a suit for his father at Zegna, a high-end clothing store.

2. Mohammed (“Ali”) Rashid

PRIOR REIMBURSEMENTS

- When asked to produce a receipt for the gifts he claimed to have purchased, Rashid asked a salesman to create and forward a false receipt reflecting the purchase of 35 “Ties for gifts.”
- Gene Donnelly asked the expense manager to review another six months of Rashid's expenses, which uncovered a number of additional inappropriate expenses Rashid had submitted for reimbursement.
- As a result of this process, Rashid, who notes that Donnelly instructed him not to engage in this kind of conduct again, paid back an additional \$7,072.36 on May 31, 2012.

Ermenegildo Zegna

Sales Assoc #:			
Delivery Method:	Pick-Up	Ship	Deliver
Address Type:	Billing	Shipping	Office
Name:	RASHID		
Company Name:			
C/O:			
Street:			
Suite/Apt#:			
City:	Sta:	Zip:	
E-Mail:			
Home Phone:		Mobile:	
Work Phone:		ext:	
	Description	Qty	Retail
1	TIES FOR GIFTS	35	\$3500
2			
3			
4			
5			
6			
7			
8			
9			
10			
Notes:		Total Items	
		Shipping Charges:	N/C
		Mailing Charges:	
		Sub total:	
		Tax:	
		Total:	3500
CC Type:	Amex	Visa/MC	JCB
Last 4:	Exp:	CVV2:	Disc
Ship to Address (if different from above):			
Company Name:			
C/O:			
Street:			
Suite/Apt#:			
City:	State:	Zip:	
Phone #:			
UPS Shipping Method:	Overnight	2-Day	3 Day
			Ground

2. Mohammed (“Ali”) Rashid

CURRENT EXAMINATION OF RASHID’S EXPENSES

- As a result of the expense review and the apparent anomalies, in May 2013, Apollo asked Paul, Weiss to investigate further the expenses of Ali Rashid.
- Paul, Weiss’s review focused on certain “red flags,” including specifically travel during holiday weekends; travel to vacation spots; and travel to sporting events, between May 2012—the date of Rashid’s last repayment to Apollo—and May 2013.
- Paul, Weiss examined Rashid’s expense statements (both as historically submitted and as annotated and amended during the 2013 self-review); his Amex statements; his e-mails; his travel records; his Outlook calendar entries; and his assistant’s emails.
- The results suggested that Rashid had expensed numerous trips that appeared to have been exclusively (or at least predominantly) personal, including several vacations and several weekend trips to sporting events.

2. Mohammed (“Ali”) Rashid

CURRENT EXAMINATION OF RASHID’S EXPENSES

- On July 1, 2013, Paul, Weiss interviewed Rashid.
 - Although he initially defended his expenditures as appropriate business expenses and noted his assistant handled his expense reports, Rashid ultimately acknowledged that many of his expenses could fairly be characterized as personal.
 - Rashid also admitted to requesting a fake receipt from a salesperson, and said that he likely told the store clerk that the receipt should state “for gifts.”
- Immediately following that interview, Rashid was suspended without pay pending a more comprehensive review of his expenses.
 - Rashid, who remains on leave, has cooperated with efforts to re-examine and (as appropriate) re-allocate his expenses.
- On July 8, 2013, Paul, Weiss engaged BDO Consulting to assist in a comprehensive “line by line” analysis of Rashid’s expenses between January 2010 and June 2013.

2. Mohammed (“Ali”) Rashid

BDO FORENSIC REVIEW

- First, Rashid and his counsel reviewed the expenses and identified those expenses that he was willing to have re-classified as personal.
 - These and any other expenses Rashid had previously identified as personal (either when incurred or during his self-review in April 2013) were not reviewed.
- BDO reviewed the remaining items, looking for documentary support for their business purpose in emails and calendar entries.
 - BDO had access to Rashid’s emails, calendar events, American Express bills, travel agency and car service schedules, and his assistant’s emails.
- Expenses without specific supporting documentation were assumed to be personal.
- BDO separated the expenses into three categories for review (applying specific “rules” for classifying the expenses in each category):
 - (1) expenses incurred as part of business trips;
 - (2) non-trip related expenses (including local meals, gifts, etc.); and
 - (3) local transportation expenses (primarily car services and taxis).

2. Mohammed (“Ali”) Rashid

BDO FORENSIC REVIEW: BUSINESS TRAVEL-RELATED EXPENSES

- For each claimed business trip, BDO reviewed the available documents to ensure the trip was primarily business related and, if so, the number of days Rashid needed to be out-of-town for business.
 - If there was no calendar event related to the trip, or if email communications suggested the trip was primarily for personal reasons, all expenses related to the trip were reclassified as personal.
 - If, on the other hand, documents indicated that the trip was business related, all hotel, meals, and transportation expenses related to the trip were classified as reimbursable business expenses except to the extent that they exceeded existing expense limits.
- **Meals:** BDO verified that the total expense was within the maximums established by Apollo’s T&E Policy in effect at the time the expense was incurred. Amounts in excess of the limits in effect at the time were classified as personal.
 - For the period November 2011 to May 2013, when no specific maximums were in effect, BDO used the 2013 maximum rates plus 20%.

2. Mohammed (“Ali”) Rashid

BDO FORENSIC REVIEW: BUSINESS TRAVEL-RELATED EXPENSES

- **Hotels:** BDO searched for documents (e.g., invoices or confirmations) indicating the nightly room rate.
 - Where a rate was identified, BDO compared the total charges to the maximum room rates allowed under Apollo’s policy limits (applying a tax rate, either specifically identified with the room rate or assumed). Amounts in excess of the limits in effect at the time were classified as personal.
 - The total calculated hotel stay was also compared to the total hotel charge. Where BDO could not find documentation supporting the additional charges, they were reclassified as personal.
 - Where the specific room rate could not be determined, the total hotel charge was compared to the maximum room rates allowed under Apollo’s policy limits. Amounts in excess of the policy limits were reclassified as a personal expense.
 - **Additional charges on invoices:** BDO determined whether the charges were related to allowable out-of-town expenses (e.g., meals, internet access).
 - Charges identified as “Paid Out” were confirmed with some hotels to be cash advances (in some instances the charges were too old for the hotel to provide the underlying detail). BDO classified all “paid out” charges as personal.

2. Mohammed (“Ali”) Rashid

BDO FORENSIC REVIEW: BUSINESS TRAVEL-RELATED EXPENSES

➤ ***Taxis:***

- Expense items identified as “Taxi & Limousine” in the T&E schedule where the merchant was a hotel were classified as personal.
- Rashid’s current assistant explained that she had entered some “paid out” amounts as taxi expenses because Rashid had told her that he used the cash to pay for taxis to his meetings. BDO classified these expenses as personal.
- All other taxis/car service expense items identified by Rashid and his counsel as part of a business trip were left as a business expense, where
 - (1) the amount seemed reasonable, and
 - (2) there was no evidence suggesting the charge was not related to the business purpose of the trip.

2. Mohammed (“Ali”) Rashid

BDO FORENSIC REVIEW: NON-TRAVEL RELATED EXPENSES

- BDO reviewed emails and other documents to determine whether the primary purpose of the expense was business related or personal.
- Where a calendar event related to the expense and the email communications suggested the expense was for a business purpose, BDO classified the expense item as a business expense.
- However, if there was no calendar event related to the expense or the email communications suggested that the expense was personal, BDO classified the expense item as personal.
- **Meals:** BDO verified that the total expense was within the maximums established by Apollo’s T&E Policy in effect at the time the expense was incurred. Amounts in excess of the limits in effect at the time were classified as personal.

2. Mohammed (“Ali”) Rashid

BDO FORENSIC REVIEW: LOCAL TRANSPORTATION EXPENSES

- For taxi/car services not identified by Rashid or his counsel as related to a business trip, BDO charged the amounts to Rashid personally.
- As a result, and in the absence of supporting documentation, all taxi and car service expenses not associated with a business trip were classified as personal without review of specific rides.
- This rule for reclassification was based on the decision that, under the circumstances, Rashid should pay for all expenses for which he could not document a business purpose.

2. Mohammed (“Ali”) Rashid

SUMMARY OF ADJUSTMENTS TO RASHID’S T&E

- Following BDO’s review, \$315,320.99 of Rashid’s expenses (approximately 38%) were reclassified as personal.
 - Of those adjustments, more than \$220,000 were initially identified by Rashid himself.
- The final reclassified amount may significantly overstate the actual amount of Rashid’s improperly-expensed costs because of the over-inclusive approach adopted by Apollo (and which Rashid appears to also have taken) during this process.
- The breakdown of the expense classifications is as follows:
 - Rashid reclassified \$220,796.87 as personal.
 - BDO reclassified an additional \$61,349.59 as personal.
 - \$ 23,654.91 in taxi and car service charges were taken as a whole and reclassified as personal.
 - \$9,282.62 was determined to be over Apollo’s established policy limits and reclassified as personal.

2. Mohammed (“Ali”) Rashid

SUMMARY OF ADJUSTMENTS TO RASHID’S T&E

➤ Summary of Items Reviewed by Category

Status	Count of Expense Items	Total Expense Amt	% of Total Dollar Amount
Non-Travel Expenses	1,153	270,717.87	32.3%
Travel Related Expenses	853	543,516.71	64.9%
Taxi/Car Service (Not Reviewed*)	824	23,654.91	2.8%
Grand Total	2,830	837,889.49	100%

➤ Summary Table of Adjustments Made

	Business Amount	Personal Amount	% of Total Exp. Reimb. Amt.	Previously Paid Back or Not Reimbursed	Total Due to Apollo
Business Expenses	522,568.50		62%		
Over the Policy Limit		9,282.62	1%		9,282.62
Personal - Identified by BDO		61,349.59	7%	513.60	60,835.99
Personal - Identified by Rashid		220,796.87	26%	17,139.82	203,657.05
Policy Violation		237.00	0%		237.00
Taxi/Car Service		23,654.91	3%		23,654.91
Grand Total	522,568.50	315,320.99	100%	17,653.42	297,667.57

2. Mohammed (“Ali”) Rashid

OTHER COMPLIANCE ISSUES IDENTIFIED DURING RASHID’S REVIEW

- Although Rashid is legally married to Farah Khan (and although Apollo HR records indicate he is legally married for tax withholding purposes), Rashid failed to complete the part of several yearly compliance questionnaires that inquired about his spouse.
 - When asked about the discrepancy, Rashid explained that although he is legally married, he does not consider himself married because he and Ms. Khan have not had a formal wedding reception.
- Ms. Kahn works for Catterton Partners, a small consumer private equity fund.
 - Paul, Weiss has asked Rashid for copies of all of Ms. Khan's account statements. A review thus far of the statements provided has revealed no issues other than four purchases of Coach stock which, at the time they were made, violated Apollo’s market cap rule.
 - While an employee would ordinarily be required to sell stock purchased in violation of policy and donate any profits to charity, Apollo has determined that this action is not required because the transactions have not resulted in any gain (the stock is trading below the purchase price); and it would serve no purpose to force Rashid’s wife to sell the stock now.

2. Mohammed (“Ali”) Rashid

RASHID’S COOPERATION WITH APOLLO’S INVESTIGATION

- Rashid has cooperated fully with Apollo, Paul, Weiss, and BDO at all stages of the process.
- He has spent considerable time reviewing his expenses to reclassify charges as personal in the first instance, and to group travel-related expenses with their associated trips.
- He has endorsed an over-inclusive approach to the effort that, we believe, may substantially overstate the amounts improperly charged as business expenses.
- He promptly provided all requested documents to aid in the review of his expenses and the investigation of his wife’s trading accounts during their marriage.

2. Mohammed (“Ali”) Rashid

EMPLOYMENT ACTION

- Rashid has been on unpaid leave since July 1, 2013.
- The findings from this review are being presented to the Apollo Executive Committee, which will make a determination about any disciplinary action and Rashid’s continued status with the Firm.